NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service, Inc
Washington, D.C.

IRS COMPLIANCE PROCEDURES

HEARING

BEFORE THE

SUBCOMMITTEE ON TAX, ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

WASHINGTON, DC, OCTOBER 3, 1984

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

40-360 O WASHINGTON : 1984

H721-17

COMMITTEE ON SMALL BUSINESS

PARREN J. MITCHELL, Maryland, *Chairman*

NEAL SMITH, Iowa
JOSEPH P. ADDABBO, New York
HENRY B. GONZALEZ, Texas
JOHN J. LaFALCE, New York
BERKLEY BEDELL, Iowa
HENRY J. NOWAK, New York
THOMAS A. LUKEN, Ohio
IKE SKELTON, Missouri
CHARLES W. STENHOLM, Texas
ROMANO L. MAZZOLI, Kentucky
NICHOLAS MAVROULES, Massachusetts
CHARLES HATCHER, Georgia
RON WYDEN, Oregon
DENNIS E. ECKART, Ohio
GUS SAVAGE, Illinois
BUDDY ROEMER, Louisiana
NORMAN SISISKY, Virginia
ESTEBAN EDWARD TORRES, California
TOM J. VANDERGRIFF, Texas
JIM COOPER, Tennessee
JAMES R. "JIM" OLIN, Virginia
C. ROBIN BRITT, North Carolina
RICHARD RAY, Georgia
CHARLES A. HAYES, Illinois

JOSEPH M. McDADE, Pennsylvania
SILVIO O. CONTE, Massachusetts
WILLIAM S. BROOMFIELD, Michigan
LYLE WILLIAMS, Ohio
ANDY IRELAND, Florida
JOHN HILER, Indiana
VIN WEBER, Minnesota
HAL DAUB, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAVID DREIER, California
GUY V. MOLINARI, New York
TOBY ROTH, Wisconsin
GENE CHAPPIE, California
SHERWOOD L. BOEHLERT, New York
MICHAEL BILIRAKIS, Florida
DAN SCHAEFER, Colorado

MAJOR L. CLARK III, *Staff Director*
THOMAS G. POWERS, *General Counsel*
LOIS LIBERTY, *Publications Specialist*
RAYMOND S. WITTIG, *Minority Counsel*

SUBCOMMITTEE ON TAX, ACCESS TO EQUITY CAPITAL AND BUSINESS OPPORTUNITIES

HENRY J. NOWAK, New York, *Chairman*

BUDDY ROEMER, Louisiana
TOM J. VANDERGRIFF, Texas
C. ROBIN BRITT, North Carolina
DENNIS E. ECKART, Ohio
JAMES R. "JIM" OLIN, Virginia

LYLE WILLIAMS, Ohio
CHRISTOPHER H. SMITH, New Jersey
DAVID DREIER, California

BENSON S. GOLDSTEIN, *Subcommittee Counsel*
JOHN L. DALTON, *Minority Subcommittee Professional Staff Member*

CONTENTS

	Page
Hearing held on October 3, 1984	1
Nowak, Hon. Henry J., chairman, Subcommittee on Tax, Access to Equity Capital and Business Opportunities: Opening statement	1
Testimony of:	
Carlton, Frank H., chairman, Federal taxation committee, National Society of Public Accountants	12
Doyle, Francis X., legislative advocate, Small Business Service Bureau, Inc	36
McCarthy, James D., Jr., vice president for tax and business services, General Business Services, Inc., on behalf of General Business Services, Inc., and the National Business Association	2
Additional material supplied for the hearing record:	
Carlton, Frank H., chairman, Federal Taxation Committee, National Society of Public Accountants: Prepared statement	16
McCarthy, James D., Jr., vice president for tax and business services, General Business Services, Inc., on behalf of General Business Services, Inc., and the National Business Association: Prepared statement	6
APPENDIX	
Prepared statement of Grafton H. Willey IV, CPA, member of the Tax Committee, Small Business Association of New England	40

IRS COMPLIANCE PROCEDURES

WEDNESDAY, OCTOBER 3, 1984

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, ACCESS TO EQUITY
CAPITAL AND BUSINESS OPPORTUNITIES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 2359-A, Rayburn House Office Building, Hon. Henry J. Nowak (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN NOWAK

Mr. NOWAK. I think we will start. The subcommittee will come to order. We have a conflict with the Democratic caucus this morning. That is what is going to hold up some of the members, but I think I will start with the statement and then we will go right into testimony, as that will be approximately 10 a.m.

As we move toward the new session of Congress, we are repeatedly hearing calls for simplifying the Internal Revenue Code. The so-called tax reform debate for next year primarily centers around such proposals as value added, flat, and consumption taxes.

I fully support the notion of tax simplification and reform. Nevertheless, this tax reform debate must closely consider the needs and burdens placed upon small firms. Substantive measures of relief should be considered and targeted to small business so that it can utilize increases in its cash flow for reinvestment and expansion purposes.

It must also take into account the paperwork and recordkeeping burdens facing the small business person, as well as his ability to implement a proper business plan. In essence, the discussions on tax reform should include consideration of IRS compliance procedures. The 1983 SBA Office of Advocacy Report on Small Business Paperwork, Problems and Progress aptly points out the potential compliance burdens placed on small business by the Tax Code. Out of a total information collection budget for the entire Federal Government of 1.1 billion, the IRS accounted for 606.3 million burden hours during fiscal year 1983. This amounts to more than half of the original information collection budget.

A national publication recently reported that the IRS received some 600 million reporting documents in 1982. With an ever increasing volume of reporting documents, there is a greater likelihood of computer failure and of IRS processing mistakes. On the other hand, more extensive reporting requirements could mean the

payment of larger and larger accounting and legal fees by the small business person.

The August 8 edition of the Wall Street Journal commented on a business concern that apparently underreported its estimated tax payments for 1981 by the sum total of $4.36. It mentions that an IRS private ruling concluded that the firm owed a penalty of $3,373 for the underpayment of its 1981 estimated tax. The agency noted in the ruling that the company was notified of the underpayment and didn't act on it. Under the circumstances, the IRS may have acted prudently and responsively. However, the Congress should review various ways of reducing such penalties when compared to the magnitude of the offense involved.

Besides penalty adjustments, one of the biggest complaints that small business has with the Tax Code involves payroll tax compliance. Small business is generally more labor intensive than its larger business counterparts. Payroll taxes impose a higher burden of compliance on smaller firms than many other provisions in the Tax Code. In general, a business is required to make payroll tax deposits as often as it pays its staff, which in many cases is four times a month.

Along with Representative Ed Jenkins, I have introduced H.R. 4521, which among other provisions would permit businesses with under $5,000 in payroll taxes per month to make its payroll tax deposits on a once a month basis. This proposal could reduce the compliance burdens of businesses that pay as much as $300,000 in salaries to its employees per year.

In the context of the 1985 tax reform debate, I intend to advocate simplification of payroll deposit requirements and other measures designed to reduce the recordkeeping burdens placed upon small business persons. Such proposals should have minimal impact on Federal revenues and at the same time, permit the small business owner to spend more time at actually running the day-to-day operations of his firm.

We have three witnesses this morning who have come forward with comprehensive testimony and I want to bring each one up. Our first witness will be from the National Small Business Association. James McCarthy is vice president for tax and business services groups, General Business Services, Inc. Mr. McCarthy has testified before the subcommittee on several occasions. General Business Services is a business consulting firm servicing exclusively small businesses. They have consultants throughout the United States. Mr. McCarthy is both an attorney and a certified public accountant and it is nice to have you before the subcommittee once again.

TESTIMONY OF JAMES D. McCARTHY, JR., VICE PRESIDENT FOR TAX AND BUSINESS SERVICES, GENERAL BUSINESS SERVICES, INC., ON BEHALF OF GENERAL BUSINESS SERVICES, INC., AND THE NATIONAL BUSINESS ASSOCIATION

Mr. McCARTHY. Good morning, Mr. Chairman. I submitted a statement. I request it be made part of the record.

Mr. NOWAK. Without objection the complete text of your statement will be made part of the record.

Mr. MCCARTHY. The Treasury Department is undergoing a massive compliance effort which it hopes will help some of the deficit problems by tightening the screws on the American taxpayer. In the past they have been oblivious to the special problems that confront small businesses. I think it is particularly important that in the future we watch to see that they don't, in attempts to collect taxes from investors in tax shelters, abuse the very small business person and "throw the baby out with the bathwater," so to speak. Your bill, H.R. 4521, hits a number of the very, very important potential problem areas.

I met with some of our business counselors in Oregon and Wisconsin and asked them to comment on what they felt were the major compliance problems confronting very, very small businesses. They all pointed to problems they have with making payroll deposits.

They have problems with clients inadvertently making payment late because it is tough to follow the rules. They have many problems with IRS assessing penalties when they shouldn't, computer problems, etc.

We had one client who has paid two penalties because of inadvertent lateness decided to pay well in advance in the future. He paid about 4 days in advance of the required date and still got a penalty. The IRS presumed that he was late from the preceding deposit date.

We need a simple, predictable deposit system. The system contained in the bill will do a fine job. It would eliminate, as far as we are concerned, most of the very, very small businesses from making deposits completely.

Some of the people I talked to weren't in complete agreement with this approach. They said we still need some deposit provisions. In the past, many small business persons have used payroll taxes for other purposes and then do not have the money when the 941 comes due.

One suggestion was to make deposits of amounts collected on the last day of the following month. Most other local taxes, sales taxes, State payroll taxes, unemployment taxes, are traditionally paid on the last day of the month. A consistent Federal system would be very useful. Another approach would be to make deposits on the last day of the following month for the first two payments and possibly skip the third quarter payment and let it be made with the 941 on the 15th day of the 4th month.

Direct writeoffs of investments in small businesses, is a terrific idea. It would in many cases generate more capital for small business owners.

Several years ago when ACRS was touted, we got the small business community to support ACRS on the grounds it was going to simplify recordkeeping for small business, which it hasn't. The regulations are unbelievable and IRS just came out with reporting requirements that pretty well do away with all of the grouping and combining of assets that supposedly would be available with ACRS. The recordkeeping is as bad as ever.

Some other alternatives that would help the small business person in this area would be direct writeoffs of investments. In many cases small business owners don't have the money to buy

new equipment. It would make it easier to attract investors in a small business, by taking the theory of section 1244 and moving it one step further instead of allowing a writeoff when the investment went bad, allow an immediate writeoff when the investment is made.

For years and years farmers have been afforded the opportunity of using the cash method of accounting. It goes back to the thirties. They were supposedly unsophisticated persons. Of course that is not the case anymore. Most farmers have federally subsidized, State-sponsored recordkeeping programs that are available to them, and even get low cost help with their tax returns in many cases. Other very small businesses could also use this benefit. There are a lot of accounting provisions that don't make any exceptions for small business, that if enforced would be disastrous.

For example, in the inventory areas, the full absorption requirement, has no exception at all for the size of a business.

I have a client that makes fishing lures in his basement, using two or three part time people. If you were to enforce the full absorption requirements, they would have to keep extremely sophisticated records in support of this modest little manufacturing effort. It would put them out of business.

The accounting provisions in the recent tax bill, are mind boggling. In the accrual area some of these changes are going to be difficult for CPA's to enforce with respect to major companies. The idea that a small business person with a small inventory must comply with these changes, is just unbelievable. A law allowing small business' liberal use of the cash method of accounting is now a must and would eliminate a tremendous amount of compliance problems for small business owners.

There are other compliance areas that we need to look at as well. Its frightening to see the emphasis on the part of Treasury and IRS to collect taxes through computer matching programs and computer audits and so on. We are all afraid that not only will the small business person not be able to cope with the rules, but the IRS won't be able to enforce them as well. You see more and more problems arising in this area.

I just had a disastrous personal problem in this area. I have an elderly aunt who lives in Illinois who looks upon me as her little nephew and would never trust me in the past with with her tax or other financial matters. Two years ago she finally bent because her local attorney had created problems. I made a mistake on her Illinois estimate; she had not given me a check. She, of course, blamed me but reluctantly decided to give me one more chance. I prepared her return last year.

Two weeks ago I got a notice that she had been assessed an underestimation penalty by the IRS. She is convinced that I am inept and shouldn't be in this business. The penalty notice that the IRS sent her was a corporate notice based on a 90-percent rather than the 80-percent test that applies to individuals. I can't convince her that it was an IRS mistake. I checked with the IRS service center. They had sent out an incorrect notice and admitted to thousands and thousands of similar errors. They simply pushed the wrong button and used the corporate test rather than an individual test.

I just got a copy of a notice from a client yesterday. As one of their audit techniques IRS is using a new matching system. They look at the tax return and to see if the same number is on it twice. If so, they assume there is an error. In this case, the taxpayer had a $2,000 IRA deposit and also a $2,000 total estimated tax payment. The return was kicked out by their computer and they were sent a letter assuming there was an error with respect to one of the two numbers.

They are using a telephone collection technique. If you owe money, they are using a computerized system to call you and ask if you are going to pay the money. If you don't answer they make threatening remarks, again using a computerized record system. We see an awful lot of potential problems.

A major problem area is in the area of 1099's. I think it is obvious that they are going to step up enforcement in this area. It is an area where small business people traditionally have not complied. I don't think the Treasury recognizes that keeping an accurate 1099 system requires an almost complete new recordkeeping system. It is almost like a new payroll system. You have to keep records of these payments made throughout the year to see whether they meet the $600 threshold and a lot of this is probably unnecessary.

They have antiquated exemption processes where they say that a payment to a corporation is exempt from the reporting, whereas a payment to a noncorporate payee is not. We need some streamlining in this area before the new compliance step-up starts because it will result in a major burden for small business persons with inadvertent noncompliance.

I want to thank you for the opportunity of appearing and I think that you have hit the nail on the head with your bill. You have put your finger on three very important issues and we are anxious to give all the help we can.

Mr. NOWAK. Thank you very much.

[Mr. McCarthy's prepared statement follows:]

PREPARED STATEMENT OF JAMES D. MCCARTHY, JR., VICE PRESIDENT FOR TAX AND BUSINESS SERVICES, GENERAL BUSINESS SERVICES, INC., ON BEHALF OF GENERAL BUSINESS SERVICES, INC., AND THE NATIONAL BUSINESS ASSOCIATION

The National Small Business Assoc. (NSB) is an organization which has represented small and independent firms in all industries and in all states since 1937. NSB is very active in the public policy area.

General Business Services, Inc. was founded in 1962. Today there are more than 1,000 franchised business counselors nationwide. These counselors serve small businesses exclusively. Their clients range from one person part-time operations through larger corporations which may gross as much as $1 million in sales annually. During its 22 years of existence, GBS has dealt with hundreds of thousands of small businesses. We have seen clients who began on a shoestring grow into a flourishing business establishment. We have also seen businesses give up because of the over-burdening paperwork and compliance measures of governmental agencies at the federal, state and local levels. GBS in its attempt to help these businesses has become aware of the myriad of problems they face. It is uniquely qualified to comment on issues affecting businesses, particularly small businesses.

Small business plays an extremely important role in today's economy. During the 1981 through 1982 period small businesses created 2.6 million jobs. At the same time, big businesses lost 1.6 million jobs. Because of small businesses important role, there was a net gain of one million new jobs in the U.S. A recent study has shown that over one-half of the innovations in the past 75 years have come from small businesses. Other surveys show that results of $1.00 spent on research are 24 times greater in a small business than in a big business. All these factors indicate that the greatest productivity is in the small business sector. With results like this, how can we ignore the 17 million small businesses in our country. There is a tremendous need to encourage embryo businesses. By encouraging them, the labor force grows, new innovations occur, and advances are made in all facets of life.

$100,000 EXPENSE PROVISION

When the Accelerated Cost Recovery System (ACRS) was enacted in 1981 it was touted as being a simplified depreciation method. Proponents argued that it would make record keeping easier for all businesses and that it was mistake-proof. Additionally, it was argued that the fast write-offs would encourage investment in business assets. Since 1981, there have been major changes made to this "simplified system".

The rules keep getting more difficult and complicated. Although the IRS has issued temporary regulations regarding ACRS, these have muddied the waters even more. The recordkeeping requirements are phenominal!

In order to take advantage of any ACRS deductions, a business must first purchase assets. This requires capital to do so. Second, businesses must generate taxable income in order to take advantage of the very large write-offs under ACRS. Businesses in the beginning stages of development frequently do not have sufficient profits in order to take advantage of the large deductions. Third, a business must generate tax liability in order to take advantage of the investment tax credits. After reducing taxable income by the large ACRS write-offs, it is not infrequent that small businesses cannot take advantage of the investment tax credits. We have seen numerous instances where the investment credits are carried forward for many years before generating some type of tax benefit.

The $100,000 direct write-off for the purchase of new equipment will simplify record keeping requirements for small businesses. However, most small businesses would be unable to raise the capital necessary to make such an investment. Nor do they, generally, generate sufficient net profits so that they could take full advantage of the write-off.

Small businesses are the ones which generate new jobs. Many small businesses are labor intensive rather than capital intensive. As a possible alternative, we suggest that the concept of the "new jobs tax credit" be reintroduced for small businesses. This would give them a credit for creating new jobs by investing in labor.

Many small businesses are short on capital. Another possible alternative would be to expand IRC Section 1244 to allow investors an immediate write-off for investments in small business. Now, investors can only take advantage of Section 1244 when the business goes belly-up. It almost seems that this provision anticipates failure. By allowing new investors to take an immediate write-off for current investment, more capital could be moved into the small business sector. Investors would be encouraged to make these investments and the success of small businesses would be fostered from the beginning.

PAYROLL DEPOSIT PROVISION

The requirements regarding the depositing of payroll taxes is probably one of the most troublesome compliance areas in the law for small businesses. Not only must the employer keep track of all the withholdings that have been made from employees'

paychecks but must frequently test the amount of withholding against the depositing requirements. The first threshhold that must be watched is the $500. There are different deposit requirements whether this threshhold is met at the end of the quarter or at the end of the month. The next threshhold is currently $3,000. There are different deposit requirements depending on whether this threshhold is met at the end of a month or end of any eighth-monthly period.

The new provision would dramatically simplify record keeping for the small businessperson. In addition, it would eliminate the necessity of constantly testing the amount of withheld taxes against the threshholds provided by law to determine when a deposit must be made.

We suggest that deposits be required at one specified time each month. The last day of the month would be the most convenient. Businesses file statements for other types of taxes like sales and State unemployment taxes. These are generally due by month-end. Allowing the deposits and reports of payroll taxes to be due on the same day would be a great convenience to small businesses. Additionally, the due date would be easy to remember.

An alternative to this would be to keep the deposit provisions as they are now written but allow the business owner to skip the third quarter deposit where the overall obligation for that quarter is $5,000 or even the current $3,000. The business owner would pay the entire third and fourth quarters when the final return is submitted at year-end. This would greatly simplify the recordkeeping requirements, especially for a calendar year taxpayer. At year-end when all the financial information is being gathered to prepare a tax return, the information regarding the payroll would be gathered at the same time. The preparation of at least one form could be eliminated. The savings in both time and money could mean the difference between success and failure for a small business.

CASH METHOD OF ACCOUNTING PROVISION

Very small businesses need some accounting leeway during their early years of existence. Allowing them to use the cash method of accounting would simplify their recordkeeping tremendously. As you are aware, the existence of inventories requires an accrual method of accounting for at least purchases and sales. This means that the small businessman must not only take an annual inventory but must also keep very detailed records on accounts payable and accounts receivable. Generally a small businessperson uses his check register to record income and expenses of the business. To require them to make adjustments for accounts payable and accounts receiv-

able would impose a heavy burden which many are unable to deal with. The taking of an annual inventory is not, in itself, difficult or burdensome. It is the maintenance of records with regard to the accounts payable and receivable that is burdensome.

The concept of using cash method of accounting and recognizing inventories is the same as originally offered farmers. They are, by law, allowed to use the cash method of accounting and still recognize inventories in determining their net income for the year.

OTHER COMPLIANCE PROBLEMS

The IRS and Treasury seem to be completely oblivious to the recordkeeping burdens imposed on truly small businesses. An example would be the requirement of full absorption inventory procedures in the case of a manufacturing concern. Theoretically, a taxpayer who hand-ties fishing lures in his basement and sells these to other sportsmen must comply with this full absorption inventory. The regulations setting forth the procedures for full absorption accounting encompass many pages. The small businessperson is probably unaware of their existence. However, even if he had heard of full absorption accounting he would probably be unable to comprehend the intricacies involved in complying with the regulations. In all likelihood, such a taxpayer would abandon his business rather than be burdened with the recordkeeping requirements.

The new fringe benefit rules are another example of a potential compliance problem area for the small businessman. Imagine trying to explain these new rules to an employer who only has three employees. Is the definition of de minimis the same for such an employer as it is for one of the large Fortune 500 companies. Is the typing of a personal letter by a secretary not de minimis for a small employer whereas it would be for a large employer?

Section 385 has been in existence since 1969. The Treasury has issued several proposed regulations concerning the treatment of investments in corporations as stock or indebtedness--the debt-to-equity provisions. All of the proposed regulations have been extremely complicated and have never satisfied anyone. All have been withdrawn. Small corporations are extremely vulnerable to this section of the Code. In their early existence these corporations need a large infusion of capital. Generally, the only investors willing to put up funds for such an undertaking is the incorporator himself. This is the type of person who needs simplified guidelines as to how much to allocate to loans and how much to stock. In spite of all our efforts, Treasury would never concede to a simplified proposal for Section 385

investment loan ratios. It is the small businessman who needs this type of guidance in order to avoid the horrendous problems that can occur when the IRS decides to recharacterize loans as capital investment.

Another area that needs special attention is in the compliance of reporting on Forms 1099. We grant that compliance in this area has always been bad and that enforcement efforts are now being stepped up. However this compliance involves keeping entirely new recordkeeping systems which are proving burdensome especially to the small businessman. The rules with regard to which payments must be reported are extremely confusing. Some types of payments must be reported and others need not be depending on whether the payment is for rent, interest, medical payments, etc. The provision that payments to corporate payees need not be reported does not seem to make sense. How can one tell whether a business is incorporated or not by looking at its name. We suggest that the reporting requirements be simplified so that a uniform method is applied to all such payments whether made to an individual or a corporation. In addition, we suggest that withholding be required in all cases where there is no TIN (Taxpayer Idenfication Number).

In our dealings with small business people we hear every day of some problem that has occurred with IRS. Our files are filled with questions on what to do next after being unsuccessful in getting a problem resolved with the IRS. For example, many of our clients have recently complained about use of the telephone recorded messages from the IRS. These recorded messages have programmed responses. Clients have reported that the general tone is one of intimidation and threat. We understand that the use of recorded messages saves time and taxpayer's expense. However, it would appear that these should be used as a last resort, only after a "live" IRS employee has talked personally with the taxpayer and told them the amount and type of tax they owe.

Other clients have frequently mentioned the inability to obtain an accounting of payments made on delinquent taxes to the IRS. They are unable to determine exactly how much of a payment has been applied to the tax due, how much to interest and how much to penalties. A taxpayer is allowed a deduction for all taxes and interest paid. The penalties are not deductible. How can a taxpayer know which part of the payment is nondeductible because it is associated with a penalty when the IRS cannot even give them an accounting?

CONCLUSION

The continuing growth of the U.S. economy can only happen when businesses prosper. Small businesses have provided much of the impetus for our prosperity. Therefore, we urge this subcommittee to approve H.R. 4521 with the suggestions we have made. This will be one small step toward easing the tax compliance burden that is threatening to strangle small businesses.

We have of course all of your testimony and it is very good. You summarized most of the high points with detail in here. I think it will be of great help as the chairman of the Oversight Committee of the Ways and Means, Charlie Rangel and I have talked and he has recently issued a statement where they announced the subcommittee has begun a comprehensive review of the Federal tax laws and the IRS.

He listed three specific areas that they want to review and one of them is the erroneous collection actions, including lien levy and seizure actions, the use of wrong taxpayer addresses and undelivered notices, delays in release of liens, along with nine other areas that you mentioned here. I think once that is done, of course, they are going to look at 1985 to incorporate all of this into the comprehensive change that they are looking at from the tax simplification aspect.

So what we are doing here of course will give him a lot of material to start into his comprehensive review, and as a starting point to look at the concerns that you have brought up here along with the other two other witnesses, who I think have highlighted to a great degree the kind of material that they will not only consider but hopefully will start making some changes as this simplification act comes about. Along with that of course is going to be the struggle whether we need additional revenues and we want to be in a position to make sure that there are no further burdens placed upon small business and that they finally have hopefully reached a complaint stage that is large enough for them to take action right after the first of the year, and this will be incorporated into their material and we will be working with them to try to clarify any other material.

Let me just ask you a couple of questions, Mr. McCarthy.

This total in terms of IRS tax compliance and record keeping, what do you think is the interest of the IRS to expand as they are dealing with both Treasury and IRS in the revenue shortfall? Do you feel out there in the field that they have expanded their so-called investigatory activities to try to make some of this shortfall from the small business community?

Mr. MCCARTHY. There is no doubt about it. They are decreasing the number of face to face audits and trying to make it up with automatic computer audits. The compliance effort has been doubled with more reliance on computer techniques and the inevitable computer errors. For the last 3 weeks the whole IRS-computer system has been down. We think they are biting off more than they can chew by trying to solve all their problems with computer techniques.

Mr. NOWAK. There is no question that when we instituted the IRA's and Keogh plans that alone I am finding, has become a big area of confusion. Somebody takes that double deduction, takes the $2,000 IRA and takes a different amount and it seems that a lot are getting kicked back because of a supposed double deduction, and overdeduction, and so forth.

Mr. MCCARTHY. They are using automatic audit techniques where they look at a return and assume an error. They then send you a notice and state—if you read it carefully—if you don't think our determination is right, call or write to us, but otherwise why

pay *x* amount. Unsophisticated people look at it and think it is a bill and pay it when they really are not liable.

I think their motives are good, but the law is so complex that I think it is going to be impossible for IRS employees to work with as well as small business persons.

Mr. NOWAK. By the time you straighten it out you have caused yourself a tremendous amount of dollars and time.

Mr. MCCARTHY. The clients can't understand why it took me 5 hours to go down to the IRS and straighten that "little letter" out. They don't want to pay for your services. It's a nightmare and something has to be done.

Mr. NOWAK. Let me again thank you for your work in preparing your testimony and certainly that full text will be transmitted over to the Ways and Means Committee investigation that they are going to have.

Mr. MCCARTHY. Thank you very much.

Mr. NOWAK. Thank you.

Our next witness will be from the National Association of Public Accountants, Mr. Frank Carlton, public accountant from Salt Lake City, UT.

Mr. Carlton, welcome. Mr. Carlton has been a practicing accountant in Utah since 1946. He is also a licensed public accountant in Idaho and a member of both the Idaho and Wyoming Association of Public Accountants. He attended the Rochester Institute of Technology and the University of Utah. He is chairman of the National Society's Federal Taxation Committee. Mr. Carlton, your statement also will be incorporated totally in the record, and I want to thank you in advance for your very complete and comprehensive statement.

TESTIMONY OF FRANK H. CARLTON, CHAIRMAN, FEDERAL TAXATION COMMITTEE, NATIONAL SOCIETY OF PUBLIC ACCOUNTANTS

Mr. CARLTON. Mr. Chairman, members of the subcommittee, thank you for providing me the opportunity to offer the views of the National Society of Public Accountants on Internal Revenue Service compliance procedures and their impact on small business. My name is Frank H. Carlton. I am the chairman of the National Society's Federal Taxation Committee.

NSPA is an organization of over 17,000 independent practicing accountants located throughout the United States. The members of the national society are sole practitioners or partners in moderately sized public accounting firms. NSPA members provide accounting, auditing, tax preparation, tax planning, and management advisory services to individuals and to small and medium sized businesses. Members of the NSPA are well aware of the problems small businesses have with IRS compliance procedures as they represent over 4 million of them. The problems small businesss have with IRS compliance procedures are not the result of a single problem with a simple solution.

We have selected what we consider to be the most troublesome and disturbing problems for which we think solutions are imperative. The income tax system in the United States depends upon vol-

untary compliance. If the Government is to be assured of maximum compliance from small businesses, then those businesses must be assured that the laws and regulations are fair and understandable.

One of the major problems small businesss face as they attempt to comply with the IRS is the accelerated pace of tax legislation. No longer does Congress pass comprehensive tax bills every 3 to 5 years, these tax bills are being passed every year, and sometimes more often.

In the last 15 years, there have been approximately 20 major tax bills enacted. The massive scope and sheer volume of recent tax law changes defy comprehension by the most sophisticated small business person. Even tax professionals are bewildered by the increasing velocity of tax law changes.

The Treasury Department has been unable to keep up with the pace of tax legislation. It has yet to issue regulations on many Code sections for which guidance is sorely needed. Approximately 400 regulation projects, some going back to 1969, are currently outstanding. This does not take into consideration IRS's prediction that 125 to 200 more regulation projects will need to be undertaken now that the Tax Reform Act of 1984 has become law. Tax planning is difficult when details of a law are not interpreted for a considerable amount of time after enactment of a law. Total compliance is impossible.

Until regulations are published, tax preparers and their small business clients are left to their own interpretations. These interpretations often conflict with the final regulations, resulting in penalties for clients and preparers.

Constant adjusting of the Tax Code breaks faith with the American people. Tax practitioners have already been faced with clients who have just purchased new buildings for their stores or machines for their plants and now find they should have checked with their tax preparer first due to the changes brought about by the latest law. Compliance is reduced when small business feels that the Government has broken faith with them.

In an effort to increase compliance, Congress has increased the number of penalty provisions. This, in and of itself, creates a second major problem. As tax professionals, it appears to us that penalties are now being used as a revenue raising vehicle. According to the 1983 annual report of the Commissioner of the Internal Revenue, $25 million in penalties were assessed during a single year. Taxpayers find the continued threat of penalties objectionable and are increasingly reluctant to comply with the laws.

Congress has passed legislation that allows the IRS to impose penalties far in excess of the infraction that has been committed. For example, section 6652 of the Code allows IRS to impose a penalty of $50 on a business for each failure to file an information return on payments of $600 or more to an independent contractor, up to a maximum penalty of $50,000 per calendar year. Not only does the filing of these return impose tremendous paperwork and financial burden on small businesses, but the penalty is excessive, especially in light of the fact that these are information returns only. These returns do not require the person filing to pay any tax. The business community perceives this penalty to be unjust. There

40-360 O - 85 - 3

are many other penalties that are perceived to be equally excessive and unfair.

Unjustified penalties are a further problem. IRS frequently takes the position that a penalty is due even before a deficiency is established. It is very difficult, for example, for a small business person to understand why he receives a letter from IRS stating that a penalty is due for late filing, or for nonreceipt of payment, when the business person has a cancelled check in hand, timely paid and properly endorsed by the IRS.

To say that the business person or his tax preparer can simply contact the IRS to straighten out the problem, ignores the fact that many taxpayers are terrified of the IRS. When they receive a notice of a deficiency, many taxpayers just pay the penalty without stopping to see if it is proper. This generation of fear of a Government agency that supposedly operates as a servant of the people is unconscionable.

The aggressive use of the penalty procedure is not the way for the IRS to obtain maximum compliance. Penalties make honest taxpayers angry. As one NSPA member said, "You don't get cooperation from a dog by beating it."

While we believe that all of the problems mentioned so far contribute to the overall problem of compliance, one other cause we believe of noncompliance by many individuals and small businesses stems from the attitude of many IRS agents. The service should adopt a less adversarial stance with taxpayers. The service's attitude leads to a feeling by taxpayers that they are being unfairly treated and diminishes the desire to comply. Greater attention to public relations and public education could go a long way toward alleviating this problem. More direct contact with and responsibility to the taxpaying public would solve some of the problems that exist in the IRS.

These problems, which lead to noncompliance by taxpayers, can be solved. But the solution lies not solely with Congress or with the IRS. Both can make a significant contribution. For example, the proposal in H.R. 4521 that would allow employers to deposit taxes on the 15th of the following month if the aggregate amount withheld by the employer during the month does not exceed $5,000 is a good one. This would alleviate one of the penalty problems that many small businesses face. However, this is not enough. Congress should immediately undertaken a detailed study of the civil penalty provisions of the Code with a view to their reformation. NSPA pledges its continued active support to such a project.

Another proposal to consider is NSPA's recommendation that there be a 5-year moratorium during which time no additional substantive income tax laws may be enacted and all current laws would be frozen. As we have already stated, the accelerated pace has led to confusion and an honest inability to comply by individuals and businesses. We believe every one—business people, individuals, Members of Congress, the IRS, lawyers and tax practitioners—could benefit from a moratorium on changes in the Code.

It is further recommended that, at the start of this moratorium, a National Commission on the Reform of the Income Tax System be established. Members of the Commission should be chosen from the executive and legislative branches of Government, the account-

ing and legal professions, the business community and the general public.

The Commission would be requested to review the current tax system and offer proposals on its reform. The Commission, which would serve for 5 years, would submit its report to the President and the Congress at the end of 3 years. It would then work with Congress and the administration during the remainder of its existence to implement its proposals.

The problems we have discussed are those that we believe most urgently need to be addressed if the difficulties small businesses have with IRS compliance procedures are to be alleviated. We hope that our proposed solutions will be considered by the Congress and the IRS. NSPA stands ready to work with you on the implementation of these, or any other solutions that you might have.

On behalf of the National Society, I thank you for the opportunity to be here today, Mr. Chairman, and for your efforts to assist small business. I will be pleased to try and answer any questions you may have.

[Mr. Carlton's prepared statement follows:]

PREPARED STATEMENT OF FRANK H. CARLTON, CHAIRMAN, FEDERAL TAXATION COMMITTEE, NATIONAL SOCIETY OF PUBLIC ACCOUNTANTS

The National Society of Public Accountants is an organization of over 17,000 practicing accountants located throughout the United States. The National Society also has an affiliated state organization in each of the 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

The members of the National Society are, for the most part, sole practitioners or partners in moderately sized public accounting firms. NSPA members provide accounting, auditing, tax preparation, tax planning and management advisory services to individuals and to small and medium-sized business firms. Members of NSPA are pledged to a strict code of professional ethics and rules of professional conduct.

We regret that we are unable to isolate all our tax troubles as being the result of a single problem with a single, simple solution. The problem is complex and not susceptible to a simplistic approach. We have here attempted to do three things:

1. Identify some of the symptoms.
2. Diagnose some of the ailments.
3. Prescribe some of the remedies.

Accordingly, in our testimony we have selected what we consider to be the most troublesome and disturbing problems for which we think a solution is needed.

Our position is that the tax laws need to be fair and less complex. We need to do more than merely engage in an exercise of "simplification" at the cost of fairness. We all know that lesson history has taught us so well in the last 15 years or so: Simplification in the name of fairness going in means complication coming out. When "simplification" has been undertaken, it seems to become lost in a maze of increasing complexity. It is a frustrating paradox. We feel this must stop--right now!

The purpose of tax legislation--revenue raising.

Before World War II we had a revenue raising tax law. Ever since, our tax laws have developed into aiming for the achievement of social and economic goals as a part of the tax system. We feel that this expenditure kind of legislation should be stopped. Economic and social goals--however good and lofty--should be attained through the budget process. If funds are needed to gain social and economic objectives then they should not come from the indirect subsidies, but rather from actual budget allocations. Fundamentally, we advocate that tax legislation should again become only a revenue raising system.

Complexities plus penalties equal taxpayer dissatisfaction and encouraged noncompliance.

Constant fine-tuning of the income tax laws creates uncertainty. In addition, the accelerated pace at which income tax legislation has been enacted has not given the American citizen time or opportunity to achieve even a reasonable knowledge of what his duties and liabilities are under the law. So, where does this leave the taxpayer? Confused. In a sense of frustration, taxpayers tend not to comply. Congress then adopts measures to force compliance but through complexity actually adds to further noncompliance.

Frequency of legislation leads to uncertainty.

While we sympathize with the Congress as they now endure the pressures to remedy the problem of our huge national debt, we feel strongly that the remedy cannot be achieved by further "adjusting." This merely creates economic uncertainty which seriously injures business and discourages economic planning by individuals.

Tax changes as a breach of faith.

Some legislative changes have impacted heavily upon taxpayers who entered into transactions in a good-faith belief that the law would remain essentially the same. For example, one of the most important goals for Americans is the achievement of an economically sound retirement period

when they leave the labor force. Many Americans have planned based upon the thought that their Social Security benefits would be tax free, even though certain other investment income might be taxable. Now, some of this Social Security benefit is being taxed away. These people, many of whom are our clients, feel that the government has broken faith with them. This attitude affects compliance.

Credits and complexity.

Federal income tax credits are designed primarily to accomplish certain social and economic goals. These credits should be abolished. In lieu of the credits, take the tax money yielded by their repeal and use it through the federal budget process. We are concerned not only over the complexity the credits add to the law but also, the fact that when an expenditure is outside of the budget process it tends to be forgotten.

Our recommendations.

We recommend:

1. As a first step to reform, the abolition of tax credits.
2. The establishment of a National Tax Commission on Reform of the Income Tax System to study and review the current Income Tax System and offer Congress a proposal on its reform.
3. A moratorium on the enactment of any income tax law during a five-year period.

4. The institution of a nonincome-based tax to serve as a revenue producing measure during the moratorium on tax legislation.
5. The establishment of a continuing Oversight Committee--Income Taxes, the work of which committee would be to assess the economic and fairness impact of proposed legislation and to evaluate the fairness and equity with which the income tax laws are administered.
6. The establishment of a Fiscal Oversight Committee. This would be a nonpartisan, joint fiscal oversight group composed of members from the Congress, the administration, the Federal Reserve Board, and the public. This committee would review and report on all of our federal fiscal system to keep both government and public informed.

We know that the goals of the Treasury in holding these hearings is to achieve certainty, understandability and fairness in our tax laws. We, too, share that goal.

INTRODUCTION

The President in his State of the Union Address last January requested that the Treasury Department submit recommendations for a plan to simplify the Internal Revenue Code so that all taxpayers are treated fairly.

When we first prepared our testimony for this hearing we

based our approach on the proposition that what is good for small business is good for America. As we developed our positions we discovered that the reverse is also true. We now firmly believe that the fair income tax laws we need and that can be supported by the whole country--are also the fairest and best tax laws for small business.

We believe that the purpose of the Internal Revenue Code should be to raise revenues by taxation. However, it should be simple, clear and direct; and it should be economically efficient; and we feel that if it meets these tests it will be fair.

We agree with Secretary Regan. The tax system we have today is too complex. We feel that this results from Congress introducing social and economic goals into the Internal Revenue Code. Further, we feel that the inclusion of items promoting these goals in the tax system not only creates undesirable complexity; it also tends to hide their costs from public scrutiny.

NSPA recommends that all tax credits in the Internal Revenue Code be abolished regardless of how meritorious they appear to be. Tax credits are merely indirect subsidies. If these subsidies promote a desirable goal, then Congress should enact a law to provide for direct subsidies. They should not be incorporated into our tax system.

Although the Treasury is charged with the simplification of and promotion of fairness in tax administration, fiscal responsibility is paramount. Revenue collection is only a

small part of the whole fiscal picture. At present, we have a crisis with budget deficits and increasing interest rates, both of which are unacceptable to the American public because they tend to result in economic chaos.

We find ourselves caught in a vicious circle. Because of our huge national debt--18% of our national budget is going to pay interest--the interest rates are unacceptably high. Congress, in a panic over the ever increasing deficit, then passes laws to produce more revenue. The provisions increasing revenue add more complexities to our tax system. This increases taxpayer dissatisfaction, which leads to noncompliance, which leads to the imposition of more penalties, which leads again to greater taxpayer dissatisfaction and more noncompliance.

Only a firm commitment on the part of the Administration and the Congress can stop this. We respectfully set forth some of the problems we see in the income tax system and propose some solutions.

CURRENT PROBLEMS IN THE CURRENT TAX SYSTEM

The problems we face are systems problems and not merely Code problems. These problems cover the entire system: the legislative process, the actual enacted legislation, and the administration of the law.

Too Frequent Tax Legislation. The manner in which Congress passes the tax law has created numerous problems.

No longer does Congress pass a major tax bill every three to five years, but rather does so with greater frequency. This prevents the taxpayer from doing any long-range tax planning whatsoever.

The frequency with which legislation is passed coupled with the enactment of retroactively effective laws, places the taxpayers at a further disadvantage. By making statutes effective as of the date of introduction rather than enactment, Congress virtually requires a taxpayer to be represented by a law firm or accounting firm with close government connections in order to assure that contemplated business transactions are not jeopardized.

Excessive Penalty Provisions. It appears that Congress is now using penalties as a source of tax revenue. Our experience tends to bear this out. Frequently, in correspondence, IRS takes the position that a penalty is due even before any deficiency is established. For example, it is most difficult for a taxpayer to understand why he receives a letter from IRS stating that a penalty is due for late filing, or for nonreceipt of payment by the Service, when the taxpayer has a cancelled check in hand properly endorsed by IRS.

Improved Administration Needed. These problems are not entirely the fault of the Internal Revenue Service. Congress passes tax laws that are sometimes extremely difficult for IRS to administer. For example, the Accelerated Cost Recovery System (ACRS) is a relatively simple concept which

should be much easier to work with than Bulletin F or Asset Depreciation Range (ADR); unfortunately, it has required 177 pages in order for IRS to explain ACRS in their proposed regulations. Section 338 and Section 385 are further examples.

Nevertheless IRS must administer the laws in a more even-handed manner than they are now doing. Agents continually take an adversary stance with taxpayers. This leads to a feeling by the taxpayers of being unfairly treated and results in possible future noncompliance by them. Circularity at some point must stop. We are convinced that it can be stopped. And, we think that IRS is the point at which it must stop.

We recognize that lack of compliance is caused by many factors. A major factor may be the inability to understand the law. The public does not understand the law in all its complexity, and, as a result, through ignorance, may not fully comply. IRS should increase its educational programs.

Another factor may be that IRS over-publicizes violators. This leads other taxpayers to feel that if there are that many violators, then why should they comply.

In publications issued by IRS, the discussion of deductions should receive as much attention as income. Publications tend to emphasize the fact that all income must be reported, which is proper. But, full disclosure is not made of the deductions and credits allowable.

Too often certain forms and instructions are not

available to the public. Therefore, the taxpayer is handicapped in getting necessary information and forms for filing his or her return.

IRS should improve its public relations effort with the media. The media should be monitored, and when a misstatement is made, it should be corrected. An example from one of our members is an announcer's statement on radio that Income Averaging could be used only by high-income and wealthy taxpayers. We recognize that this is a difficult task, but it is one in which the Service must become involved.

One commentator noted that the "truths about effectiveness and fairness of the system are irrelevant if the public perception is to the contrary." If the Service continues to permit inaccuracies about the system to be disseminated, then it cannot complain about noncompliance.

Failure to Deal Fairly with Taxpayers. With the advent of taxing Social Security and the possibility of taxing the income on tax-free instruments, Congress has lost a great deal of credibilty with the taxpayer. The public was told that certain items would be tax free and so they have been over the years. In one fell swoop, the law is changed and the taxpayer is trapped. The taxpayers feel that they have a right to consistency on the part of their government.

In order to obtain better compliance from the public, Congress and the IRS are going to have to adopt the position on every level, of being less an opponent of the taxpayer and

more a servant of the public.

SUGGESTED SOLUTIONS TO PERCEIVED PROBLEMS

We offer for your consideration the following approaches to solving some of the problems we perceive exist in the system.

Elimination of tax credits.

The investment tax credit seems to have accomplished, to a large extent, the well-intended goal of encouraging capital investment. Unfortunately, the rapid changes in the tax law with respect to this tax credit have tended to create a kind of "backlash" on planned capital investment. The credit is no longer as attractive as it once was.

Rather than providing for this credit--as indeed with many of the other credits--if the U.S. government wants to encourage capital investment it should be achieved through the federal budget process, not the tax system. Credits are a form of a subsidy. If Congress were required to treat subsidies as a budget item rather than as a tax expenditure item, then Congress would maintain a continual awareness of actual costs. This is something we feel they have failed to do when these items are "merely tax expenditures."

The energy credit, the earned income credit--and indeed the entire laundry list of credits in their peculiar pecking order--were designed to achieve admirable goals. However,

these goals are fraught with uncertainty of achievement.

In view of all this, we recommend that the entire system of credits be repealed. We take the position that none of them may be regarded as sacrosanct. We can no longer afford this kind of "luxury of uncertainty" and continual failure of Congressional oversight.

Establish a National Commission on Reform of the Income Tax System.

It is recommended that there be established a National Commission on the Reform of the Income Tax System consisting of representatives from government, the professional accounting and legal community, small business persons and the general public.

The National Commission would review the current income tax system and offer a proposal on its reform. In order to properly evaluate alternatives, this Commission would need bipartisan support from both the Administration and Congress.

It is further suggested that the Commission, as recommended, would serve for a term of only five years. However, at the end of three years, it would submit a comprehensive report to conform and work with Congress and the administration during the remainder of its existence to have its proposals implemented.

The taxpayers are now unreasonably expected to comply with a body of tax law which they cannot reasonably understand--indeed, even their most expert professional

advisors cannot fully comprehend. In order to remedy this problem, it is necessary to enact less tax law, clearer tax law, and to provide a reliable degree of certainty and understandability.

Moratorium on tax law enactments.

It is recommended that no additional income tax law be enacted for a five-year period.

In the last 15 years there have been approximately 20 major tax acts. Since the Tax Reform Act of 1976 there have been at least 10 of these tax acts. While several of these acts were carefully drafted after intensive study of the area to be legislated--as for example the Bankruptcy Tax Act of 1980, the Installment Sales Revision Act of 1980, and the Subchapter S Revision Act of 1982--many others contained provisions whose effect was not as carefully studied before enactment. A moratorium on income tax legislation effecting substantive changes in the income tax would give the Commission an opportunity to effectively study the system and prepare meaningful reform.

The massive scope and sheer volume of recent tax law changes defy the comprehension of many tax professionals. We have noticed recently that even sophisticated nontax professionals have become bewildered by the increasing velocity of tax law changes.

The increasing pace of tax uncertainty has made it extremely difficult to interpret current tax law. Until

regulations are published, little authoritative guidance is available. The rapid change of tax laws also reduces the reliability of authoritative interpretations, whether in the same or a related area.

Treasury has been unable to issue regulations on many Code sections for which guidance is sorely needed. Approximately 400 regulation projects, some going as far back as 1969 are currently outstanding. If the Tax "Reform" Act of 1984 is enacted, IRS predicts that between 125 and 200 more regulation projects will need to be undertaken. Planning and compliance are difficult when many details of a new law are not interpreted for a considerable length of time after enactment, but it is even worse when statutory regulations are not issued, as for example, since 1969 for Section 385.

The increasing pace of tax uncertainty has had an enormously disruptive effect on the country's business and political environment. Business planning that involves the commitment of substantial resources is hampered by constant tax law changes. For example, planning in the construction industry is severely affected by uncertainty in the cost recovery and investment tax credit areas of the Code. Small business is finding it difficult to survive in the uncertainty of the tax treatment of their ordinary day-to-day transactions. In short, there must be a stable tax framework in which business may plan its transactions in order to promote a long-run efficient allocation of resources.

Certainty in the planning of a citizen's economic affairs must not be destroyed or even seriously impaired by the uncertainty of the future impact of changing tax laws on the achievement of intended economic goals.

Need for interim revenue producing tax.

Obviously, it would be necessary for the Congress to continue its traditional function of raising the revenue. The deficits preclude anything else. To this extent it would seem appropriate for the Treasury to propose and Congress to enact--while observing and in connection with our moratorium on the creation of new income tax law--a nonincome-based revenue raising tax. This tax would exist during the five-year moratorium period and must be subject to sunset review at the end of the five-year term.

Such a revenue raising measure, as we perceive it, should not be income based connected, but should create revenue from other kinds of taxes such as VAT or a national retail sales tax. Failure to keep these revenue measures out of the income tax law would, without doubt, lead us further into the ever deepening incomprehensibility of the very problems we are trying to remedy.

A further advantage of a consumption-based revenue-raising tax would be to impose some sort of tax on the "cash" or underground economy at the point at which it surfaces. One should then be able to develop a more accurate estimate of the size of the "alleged" underground economy

than is presently available. A more accurate estimate of size will make any solutions proposed by the Commission more politically acceptable.

A continuing oversight committee.

Finally, we recommend that there be established a perpetual oversight committee consisting of members of the executive and legislative branches of the federal government, together with public members.

We perceive the role of this committee to consist of the following:

1. Assessing the economic impact of tax laws on government.
2. Assessing the economic impact of tax laws on the taxpaying public with particular emphasis on concepts such as the general fairness of the law, the fairness of the tax load distribution, the burden of acts required of the taxpayer and the perceived equitable application of the law to people.
3. Evaluating the efficiency, fairness and even-handedness of administration of the laws.
4. Examining the proposed laws and regulations to see whether they will create any or all of the problems herein cited.

While the executive and legislative members of the Committee would be familiar with government operations, needs

and objectives, the public members could bring to the Committee some idea of the impact of tax legislation in the real day-to-day world in which they must live and do business.

CONCLUSIONS: THE NEED FOR A BROADER VIEW

Adopting and implementing a fair tax system would greatly enhance the chances of raising the revenues needed to allow our federal government to function efficiently and successfully.

However, we would also like to impress on this committee that raising revenues is only one part of the total financial structure of the government. Our government's fiscal health and well-being are dependent upon a continuing concern for all aspects of the fiscal process with a view to total fiscal responsibilty.

While we recognize that this is an executive branch hearing, we would suggest that both the legislative branch and the executive branch give equal attention to the appropriation and budget processes and the coordination of these processes with revenue raising through our tax laws.

We propose that a nonpartisan joint fiscal-oversight committee be established which would be composed of members from the Federal Reserve Board, and the public. The mandate of the committee would be to review and report on all of our federal fiscal system in order to keep the public and those

charged with stewardship of the government sufficiently informed about the income and expenditure process. Our present system of revenue raising and spending is completely devoid of coordination and direction.

If the fiscal health of our entire financial system is ignored, the finest and fairest tax laws ever enacted will not get our country moving very far down the road toward economic recovery. If one tire on our fiscal jitney is flat, it can keep us from traveling where we want to go--which of course is toward prosperity and fiscal responsibility.

Mr. NOWAK. Thank you very much, Mr. Carlton. Let me assure you that this suggestion that you have made will be discussed with the Ways and Means subcommittee counsel and Chairman Rangel over there. Although he isn't establishing a commission, I think for the first time he is looking at this total area and many of the recommendations that you have made and our other witnesses, I think would be coming right into the areas that they are looking for. It may expand their research for these kinds of answers. I think you are absolutely right when you talk about the gigantic changes in the 1981 act and then for 2 succeeding years we have been raising revenue. The regulations even for the 1981 act aren't out yet, and you are living under reversals of those in 1982 and 1983, and of course we look ahead to 1985. Depending upon how this revenue situation finally shakes out, I think we are probably going to look at other changes. What I think we have to prepare ourselves for is, that the changes that are made don't complicate the system anymore than it already is.

Some of the horrendous stories we are hearing about the kind of compliance procedures that the IRS is trying to impose, just don't make sense. But worse than that, it seems that these are not resulting from shortfalls in payments of taxes; instead, they are either computer errors or they are matching errors, or they are trying to catch up with their own changes in regulations, and I think your statement bears that out. When you have your people out there trying to represent their clients, can you tell us the kind of costs that are involved for a typical IRS hearing with one of your clients?

Mr. CARLTON. I am sorry, sir, I don't quite understand the question.

Mr. NOWAK. What would be involved in a typical hearing. Suppose you received a letter that one of your clients was not in compliance and you had to meet with the IRS people, what kind of time and energy is typically taken up and also the kind of costs that are involved for the small business?

Mr. CARLTON. Usually you have anywhere from half an hour to an hour or more in researching the problem. Then you usually communicate with the IRS district office or service center, then it may take a trip down there.

The gentleman preceding me mentioned the automatic collection system the IRS instituted in May. I had an instance that I took up with the national office in a meeting last July whereby a client of mine dropped dead, unfortunately, in the last of January. He was the managing partner of a considerable sized small business. Consequently, due to this death, the fourth quarter payroll tax was not filed, although it was completely paid up through the depository system. The return, as I mentioned, was not filed and the automated collection system picked it up and sent him, on July 1, the prepared form 943 for the last quarter of 1983, the first quarter of 1984 and second quarter of 1984, which was not even due, for $39,750.

When the returns were paid—and I got a call from this automated collection service, as Mr. McCarthy said—the lady that called was very obnoxious and she wanted to know where the taxpayer banked.

I said, I am not going to tell you.

She said to me, do you realize that you are talking to, a Government officer?

I said, that may be so but it doesn't impress me.

Then she said where do they make the deposits?

I said, I am not going to tell you that. If I would not tell you where the bank account was, I am not going to tell you where the deposit is made, and she hung up on me.

But before that, she said I will give you until 4 o'clock this afternoon to file a return.

I said, would you be interested in why they haven't been filed?

She said that was of no concern of hers.

That is the attitude we are getting from IRS personnel, which upsets the taxpayer greatly.

Mr. NOWAK. You know, in each of the so-called 73 district offices the IRS has supposedly placed a person called the problem resolution officer. Have you ever had an experience with that officer in trying to come to some solution to these problems?

Mr. CARLTON. With which office?

Mr. NOWAK. They are called the PRO, problem resolution officer.

Mr. CARLTON. Yes sir.

Mr. NOWAK. You are supposed to call them when you do have a problem.

Mr. CARLTON. That was the only way I solved this problem. I had to go to the district office, make a trip to the district office. I made an appointment and went down there and was very fortunate to get the problem resolution officer who called in the chief of collection in the Salt Lake City district office and went over it. In fact, she called in the district director and showed the district director where they had prepared form 941 for the second quarter which was not due until July 31, and the district director was horrified. She said there is no provision in the Code for regulations like that.

Incidentally, to answer your question about a fee, the total fee on this by the time I got it abated, was $400 for the taxpayer. That was just for the time that I had put into it from the beginning when the assessment was sent to me to the conclusion of it.

Now we have another problem with the same case. We were assessed a penalty, which we paid, a small one of $173, for not timely filing one deposit after the taxpayer had died. But we have now a $2,500 overpayment and we don't know where it has come from. We are not hassling the fact that they want to give it to us, but they have taken $1,500 of it and applied it to the first quarter. They have taken the same $1,538 and applied it to the second quarter, and now we have the same $1,538 in the third quarter, and prior to my leaving for Washington last Friday, we got a check for $900.

I am not sure whether we are ahead of the game or where we stand but we have still paid a penalty for failure to meet depository requirements according to the IRS. I am willing to take the tradeoff of $2,500 or $2,400 for the $173 penalty we have paid.

Mr. NOWAK. Well, thank you very much, Mr. Carlton, and again, we may be back to you as we develop more specific questions in this area, and what I want to do is really put together a full agenda for the Ways and Means to start considering some specifics

on these problems. I don't now if we can promise that there won't be any action taken on any of the prospective code changes in the next 5 years. But at least we should be looking at the complications that are in the Code now and try to alleviate those. If those are the changes made, at least we will have accomplished something.

I think the whole simplification effort will be going in this direction and, certainly the IRS compliance procedures too, will have to be totally reviewed. This is necessary so that we don't hear those horror stories, which don't seem to be doing anything for really bringing in money that is truly owed or legally owed. Rather this has become a time consuming effort both on the part of the IRS and on the business people out there that are trying to live within these regulations.

I want to thank you for your testimony and again, we may be back to you as we develop specific questions. We shall consult with the Ways and Means Committee to aid them in their final legislative changes.

Mr. CARLTON. Thank you. We would be glad to cooperate in any way.

Mr. NOWAK. Thank you.

Our next witness will be from the Small Business Service Bureau, Inc., of Worcester, MA. The witness is Francis X. Doyle, legislative advocate. Mr. Doyle has been with the Small Business Service Bureau since 1978. This is a very large group nationally, it has over 35,000 members.

Mr. Doyle is currently on the Small Business Advisory Council for Massachusetts Senator Paul Tsongas and he was a member of the Small Business Advisory Group for the former Gov. Ed King of Massachusetts, and we appreciate your presence here today.

TESTIMONY OF FRANCIS X. DOYLE, LEGISLATIVE ADVOCATE, SMALL BUSINESS SERVICE BUREAU, INC.

Mr. DOYLE. Thank you, Mr. Chairman, glad to be able to come down and bring you examples from our members.

When asked about the IRS, entrepreneurs let out a sneer, a cry, or possibly a nervous laugh. When asked how they are able to deal with the IRS, a litany of examples follow.

This feeling of helplessness was best portrayed in a ballot of ours, when 91 percent of our members voted in support of a Congressman's statement: "Congress should curb the power of the IRS."

Small Business Service Bureau, Inc., is, as you know, a national small business organization made up up of 35,000 members, many of whom are self-employed.

One culprit lurking behind the IRS is Congress itself. For the average small business person to keep up with every change of the Tax Code is an impossible task.

Just as we were getting to know ERISA and our role as a "prudent man," we had ERTA. By the time ERTA was off the press, we had TEFRA. Now, the big eight are still trying to understand DRA. Planning investments, expenses, inventory control, employee benefits, and pension plans is a great uncertainty when the laws and regulations change so briskly.

The debt/equity ruling on section 385 is one example where the Tax, Access to Equity Capital Subcommittee is to be praised. The flow chart needed to understand whether you had borrowed money or sold ownership may have been heaven to the computer programmers. It was insurmountable to the business owner.

The majority of Small Business Service Bureau, Inc. members surveyed feel the IRS is disorganized and needs an overhaul to clear up much of the confusion caused by constantly changing regulations and an overabundance of complicated paperwork.

Small businesses are especially fearful when it comes to doing their own taxes, due to the long drawn out procedures that occur if a discrepancy is found by the IRS. Meanwhile small business loses valuable time and money even if it was right in the first place.

Some examples by members:

A Massachusetts CPA said:

> Payroll timing requirements are unbelievably confusing even to me, and this is what I do for a living. It could be simplified considerably.

One company that filed for a rebate in 1977, just received it last month. There was an interest tacked on, but no explanation.

Another company was told they owed $282 on its withholding account. The amount with penalties grew to almost two times that much. A year later they were still arguing the case. In the end, the company had actually overpaid the amount due in the first place and it took almost another year for the IRS to straighten it out and credit the company's record.

Members also felt that the inability to get in touch with the IRS compounds the problem. Telephone lines are said to be constantly busy. Written correspondence is just as bad, if not worse. Letters sent to the IRS usually cannot be directed to a specific person. It is rare then, that two letters end up on the same desk. Meanwhile, the IRS is sending letters to the taxpayer demanding payment—with interest and penalties.

One SBSB member, a CPA in New York noted:

> I work in New York City and it is impossible to reach the IRS in Manhattan. You can try 20 times a day and the lines are busy. There just aren't enough personnel. Hotlines are a great idea but you can't rely on getting through and if you do, you can never reach the same person twice when following up on something.

That comment was reiterated many times by respondents to the survey.

Another New York CPA added: "Sometimes it takes 6 to 18 months time to correct an error. It seems to me that they are lackadaisical in their correspondence, meanwhile it is costing you money."

One company found it takes 45 days to get any kind of response in writing from the IRS even if something is sent registered mail. Another concern of small business is that the IRS has been allowed to become too powerful, leaving the taxpayer with little or no choice to fight what seems to be a losing battle.

One New York member's 1976 and 1977 taxes were disputed by the IRS. After what he said were 3 years of intimidation by various IRS employees, he took his case to U.S. Tax Court. Three trips to Buffalo, NY were made at his expense. He lost the case but the amount awarded to the IRS was only about half what the IRS said

he owed. He said he fought the case on principle because of the manner in which he had been treated by the IRS agents: "I lost due to the burden of proof being on me. I was assumed guilty and required to prove my innocence." The same member wrote to Representative Lundine urging renewal of the Equal Access to Justice Act and stressing that the IRS be brought under its jurisdiction.

Almost all small businesses surveyed expressed that at some time or another, in dealing with IRS employees, they have found them to be harsh and impersonal. The attitude is, "Well, that is what the computer says" rather than personally trying to find an answer or use some judgment.

One member commented: "They should admit they can't always keep their record straight. Instead of scaring people by sending demanding letters with invoices, they should say they are having trouble with the system and ask your cooperation in sending a canceled check just to assure payment has been made."

"There is a lack of the element of judgment when dealing with IRS personnel. It is a monumental problem. They automatically think because you might have made a mistake, you are trying to cheat them. They take nothing else into consideration."

In summary, Mr. Chairman:

One. The inclusion of jurisdiction over the IRS in the renewal of the Equal Access to Justice Act should prevent a situation which epitomizes the need for that law.

Two. A simple tracking system should be used so that taxpayers can work with the same IRS personnel on a consistent basis.

Three. Insist that a 30-day turnaround time answering correspondence be instituted, and suspend penalties on cases where they are prolonged by IRS itself.

Four. Work to simplify the system. The number of exemptions, variations and unclear forms make the most intelligent taxpayer nervous about their taxes.

Five. Do everything possible to maintain the same consistency in the Tax Code itself. The changes year to year are nearly as bad as the taxes themselves.

Mr. NOWAK. Thank you very much for your testimony, Mr. Doyle.

I think you make a good point when you talk about the differences in "businesses out there." These small labor intensive businesses are really where the growth is in the economy. The administration on the one hand talks about all the new jobs that are being created, I think the evidence is that a great number of jobs are being created by the small business community out there, especially in the service industries. As you look around and see the lack of growth in the manufacturing area, you see the tremendous explosion of small businesses all around the country.

By the same extent, they are creating an awful lot of problems with this Tax Code for them perhaps not to get into business, but certainly to exist and try to expand. Unless we pay a little more attention to this, we are going to cut this growth off very, very rapidly.

One of the problems you mentioned is this continuous change in the tax law. I was wondering if through your contacts you found that business people have really a tough time looking at the tax

law and trying to put together or stick to a business plan as a businessman?

Mr. DOYLE. Very much so, because for most of our members, whether it is business taxes, personal taxes, it affects their personal livelihood in a direct sense, their ability to plan what their rate is going to be and what their self-employed social security tax is going to be, any planning is going to go out the window.

In the last couple of years, the self-employed rate has gone up tremendously, which is not something they can use any deductions against, essentially, and also their ability to make fairly simple investments in their business. The Tax Code has changed so much, even when taking into account changes for deficits, which is going to increase in the next couple of years. The immediate expensing provision is one which a smaller firm needs the immediate turnaround. Now, this has been delayed even further. Some things that they thought were going to be to their benefit now aren't. For a lot of them it is: "Forget what is going to be changing, let's make sure we can pay for it" and they are not able to use the tax code to their advantage as much as the business that is using one of the big eight that might be involved.

Mr. NOWAK. We talk about the industrial policy and there has been a debate whether we need an industrial policy. When you look at the Tax Code, and you start to realize the consequences of living under that Tax Code, that has been an "ad hoc industrial policy." To a great degree it depends on where deductions come from, where the heavy emphasis are placed on depreciation, whether a tax credit comes into the system or not. The Tax Code really is a motivator of the economy out there, and I think too often we look at it as a separate revenue raiser without looking at the other implications.

Certainly this is one area that I think we really have to look at in the future because in the past, large manufacturing has dominated the country and we are looking at such a changing structure so fast that we really haven't given the attention we should to the small business community. Hopefully, that will be a part of what we start to accomplish with this hearing.

As we again have more dialog with the Ways and Means Oversight Committee on this specific matter we may get back to you with a request for more detailed information, as these questions start to crystallize.

Mr. DOYLE. That will be fine.

Mr. NOWAK. Again, I want to thank you for your time and certainly the effort that you put into your testimony, and we will look forward to corresponding with you over this so-called recess.

Thank you very much.

Mr. DOYLE. Thank you, Mr. Chairman.

Mr. NOWAK. This meeting stands adjourned.

[Whereupon, at 10:50 a.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIX

ROONEY PLOTKIN & WILLEY
Certified Public Accountants

16 BELLEVUE AVENUE
NEWPORT, RHODE ISLAND 02840
401-849-3134

DAVID A. ROONEY, CPA
RICHARD A. PLOTKIN, CPA
GRAFTON H. WILLEY IV, CPA

PROVIDENCE OFFICE

10 DORRANCE STREET
PROVIDENCE, RHODE ISLAND 02903
401-272-9080

November 1, 1984

Committee on Small Business
Parren J. Mitchell, Chairman
U.S. House of Representatives
Washington, DC 20515

Att: Mr. Benson Goldstein

Re: IRS Compliance Procedures

Gentlemen:

I am enclosing a written submission from the Smaller Business Association of New England for your investigatory hearing on Small Business and IRS Compliance Procedures. I apologize for not being able to testify in person, but as an owner of my own small business, I have been faced with a typical small business problem of being understaffed and overworked. While I believe that your committee's work is very important, my clients pay the bills around here and they took priority. If we had been given more advance notice we could have compiled a better presentation.

I have kept my testimony general in nature, providing only one specific example. If you need additional examples or desire comments on specific areas, please let us know.

Sincerely

Grafton H. Willey,IV, CPA

GHW/mr
Enc.

Statement of
Grafton H. Willey, IV, CPA
Member of Tax Committee
Smaller Business Association of New England (SBANE)
on Behalf of
Small Business United (SBU)
before the
House Small Business Committee

Re: Small Business & IRS Compliance

I am submitting this testimony as a representative of the Smaller Business Association of New England (SBANE). I am an owner of my own small business accounting firm. Our firm represents over 500 small businesses. I feel particularly qualified to comment on the problems that small business has in coping and complying with IRS procedures. We are constantly being asked to act as intermediaries for our clients in solving problems with the IRS. With the Service's continual march towards full computerization, the problems are multiplying and the settlements are becoming more and more difficult. Often simple problems, involving insignificant amounts of money, develop into bureaucratic nightmares which take months to settle.

Inherent Problems of Small Business in Dealing With the IRS

There are a number of inherent qualities prevalent in most small businesses that place them at a disadvantage in dealing with the IRS. These include but are limited to the following:

1. Most small businesses are under capitalized. It is a well-known fact that small businesses do not have the access to the capital markets that large businesses do. Many small businesses are capitalized solely through the owner's equity. Others that do have external financing usually have to pledge their personal assets as collateral and

the amount of financing is severely limited. The recent movement towards a more centralized banking system with the advent of deregulation is a further limiting factor. Therefore, daily cash flow can be a far more critical concern for a small business than for a large business. Cash flow is also a critical concern for the government. Over the past few years Congress has learned that it can raise substantial revenues by just speeding up its collection process. Unfortunately, it appears to us that small business is putting up a much larger share of the increased revenue, when they're the least able to afford it. The recent changes in the payroll tax depository requirements have not materially effected the large companies. The large companies for years have been required to make a payroll deposit within three banking days of incurring the liability. It is a small company that is being asked to speed up its deposits. While recently the threshold for the three-day depository requirement was increased from $2,000 to $3,000, the increasing wages paid to employees coupled with the increasing payroll tax levies (primarily increased social security taxes) have more than offset this advantage.

2. Most small business owners are production and concept oriented. Very few are owned by financially-oriented individuals who are adept at deciphering the government paper work morass. To most, accounting and bookkeeping functions are a necessary evil that has been thrust upon them. Given the choice to invest limited dollars, they will invest in income-producing functions before investing in non-productive control functions. The result is that the dollars spent on talented employees

and sophisticated equipment is not spent in the accounting and finance areas. The result is that the accounting systems in a small business are not efficient in meeting the increasing information request of the government.

3. Most small businesses are understaffed. Most small businesses cannot afford the luxury of employing people with idle time. Each additional employee added to the payroll must be justified since usually the cost comes directly out of the owner's pocket. The result is that small businesses usually operate more efficiently than large businesses and depend on less qualified personnel. A typical accounting department in a small business will consist of a bookkeeper and a clerk neither of whom have a college education. They are expected to handle all the day-to-day accounting functions of the company, but are not prepared to handle the complex problems of dealing with the government bureaucrats. Since most small businesses cannot or will not afford sophisticated controllers, they often depend on outside professional help for information in the technical areas of taxation and systems analysis. Solving small bureaucratic problems with outside professional help can incur significant fees which most small businesses cannot afford.

4. Small Businesses are generally more labor intensive than larger business. Therefore, payroll taxes impose a higher burden of compliance on smaller firms.

Small Business & IRS Compliance

Problems Complying with IRS Payroll Tax Procedures

1. Most people in small business find the instructions for complying with the payroll tax procedures of the IRS confusing at best and indecipherable at times. Many accountants and professionals also have problems with them.

2. The rules and requirements are constantly changing. Many bookkeepers do not find out about the changing procedures until they are hit with a penalty.

3. The number of reporting documents to be filed is increasing each year. The combination of payroll tax returns and 1099 filing requirements is placing a tremendous burden on small business. Large businesses have access to automated equipment which greatly facilitates the processing of information. Most small businesses are still not fully automated. The compiling of information returns (1099's) for payment to unincorporated recipients can be a major problem for a simple manual bookkeeping system. Since small businesses are obtaining a large percentage of its services from unincorporated business, they are responsible for filing more of these returns.

The Computer Nightmare

The IRS computer may be the biggest problem for the small business to deal with. An IRS computer letter strikes fear in most small businesses. All

I have to do is reach into one of my client files to show you one computer nightmare after another. It is a situation that is out of control.

The computer sends out notices but does not recognize replies. We have responded to computer notices three and four times only to be told "We have previously written you and have not received a reply, therefore, we are forced to do the following". One somewhat effective approach is to mark in three inch red ink across the response "Please Examine By Human Being!". It is often a major project to get off the computer merry-go-round. Responses can lie on agents' desks and the computer proceeds on its merry way towards assessing liens and closing the business down.

The small business is not in a position to cope with the IRS computer demands. First of all he or she usually does not understand what the problem is. The first impulse is that the computer is probably correct and they pay the assessment. We have found many incorrect assessments being paid by unknowing taxpayers. If they do not come in to the assessment, they usually send it to their outside professional accountant. This results in increased professional fees which can amount if the problem is not solved quickly which is often the case.

Failure to Comply Penalties

Perhaps the most burdensome provisions in complying with IRS payroll tax procedures are the penalty provisions which are applied to any and all transgressions. There are no less than 12 forms of penalties and interest which can

be assessed on an incorrectly filed payroll tax return. I do not believe that any legitimate small businessman would argue that payroll taxes should not be paid on a timely basis. Most would agree that those that do not pay should be penalized. Unfortunatly, Congress and the IRS has taken its usual approach of trying to kill the fly with a cannon. In an effort to curb an abuse, it has levied an unreasonable assessment against businesses who are attempting to comply with the law. I believe that the imposition of the 5% per month penalty for a minor infraction on a business that is complying with the depository requirements on a regular basis is an unconscionable assessment tantamount to usury (the annualized interest rate can be astronomical). This type of penalty is being imposed on a daily basis, and it is my guess that almost all are being imposed on small businesses who periodically get tripped up on the filing requirements. This type of penalty has to be a major generator of revenue for the Service. Penalties should be assessed to punish abuses not to generate additional revenues. If the Service charged twice the statutory interest rate, the punishment would be severe enough and the Service would be getting a good return on the lost revenue. These types of penalties to a small business can often mean tht difference between profit and loss, whereas to a larger less labor intensive business such a penalty would not be material.

<u>An Example</u>:

I will provide you with an example of IRS computer logic which left one of my client's bookkeepers totally confused, and took me more than a few minutes to figure out. (forms enclosed)

Small Business & IRS Compliance

7/16/84 IRS assessed penalty of $332.94 for the first quarter of 1984 because the company did not record the tax liabilities correctly on the quarterly tax returns. The IRS averaged the liabilities and determined that the taxes were not timely filed although all paid for the quarter. (She had in fact listed the liabilities on the original return correctly.)

7/17/84 The client's bookkeeper responded to the IRS seeking abatement of the penalty.

8/30/84 The IRS verified receipt of her response and was going to abate the penalty. (She was very lucky, usually this does not happen and she would have received one or more demands for payemnt.)

9/10/84 IRS notifies the company that it was not going to refund a claimed refund of $152.54 for the second quarter of 1984 because it was going to apply the refund against the penalty which it had assessed for the first quarter of 1984 which had previously been abated.

9/17/84 IRS notifies the client that the penalty had been abated on the account and that it was refunding the overpayment from the first quarter which was a result of the second quarter overpayment being applied to the first quarter penalty which was then abated.

A complex solution to a simple problem.

(1)

(...ry 1984) ...ment of the Treasury ...ernal Revenue Service

Employer's Quarterly Federal Tax Return

▶ For Paperwork Reduction Act Notice, see page 2.

OMB No. 1545-0029

Type or print in this space your name, address, and employer identification number as shown on original.

Return for calendar quarter ending (Enter month and year as on original)

Ck# 1012
4/5/84
221.31

YOUR COPY

Record of Federal Tax Liability
(Complete if line 13 is $500 or more)

See the instructions under rule 4 on page 4 for details before checking these boxes.

Check only if you made eighth-monthly deposits using the 95% rule. ▶ ☐

Check only if you are a first-time 3-banking-day depositor. ▶ ☐

Date wages paid		Tax liability
First month of quarter — Day		
1st-3rd	A	
4th-7th	B	886.62
8th-11th	C	1021.34
12th-15th	D	
16th-19th	E	1042.24
20th-22nd	F	
23rd-25th	G	1042.84
26th-last	H	
I Total	▶	3993.04
Second month of quarter		
1st-3rd	I	1043.44
4th-7th	J	
8th-11th	K	1040.42
12th-15th	L	1041.94
16th-19th	M	
20th-22nd	N	1039.22
23rd-25th	O	
26th-last	P	15,019.02
II Total	▶	19,184.04
Third month of quarter		
1st-3rd	Q	1039.22
4th-7th	R	
8th-11th	S	
12th-15th	T	1039.22
16th-19th	U	
20th-22nd	V	1039.22
23rd-25th	W	
26th-last	X	1039.22
III Total	▶	4156.88
IV Total for quarter (add lines I, II, and III)		27,333.96

If you are not liable for returns in the future, write "FINAL" ▶

Date final wages paid ▶

Complete First Quarter Only

1 a Number of employees (except household) employed in the pay period that includes March 12th ▶ 11

b If you are a subsidiary corporation AND your parent corporation files a consolidated Form 1120, enter parent corporation's employer identification number (EIN) ▶

2	Total wages and tips subject to withholding, plus other compensation ▶	100,693 12
3	a Income tax withheld from wages, tips, pensions, annuities, sick pay, gambling, etc. ▶	17,414 10
	b Backup withholding ▶	
	c Total income tax withheld (add lines 3a and 3b) ▶	17,414 10
4	Adjustment of withheld income tax for preceding quarters of calendar year:	
	a From wages, tips, pensions, annuities, sick pay, gambling, etc. ▶	
	b From backup withholding ▶	
	c Total adjustments (add lines 4a and 4b) ▶	
5	Adjusted total of income tax withheld (line 3c as adjusted by line 4c)	17,414 10
6	Taxable social security wages paid: $ 74,023.12 X 13.7% (.137)	10,141 17
7	a Taxable tips reported: $ ____ X 6.7% (.067)	
	b Tips deemed to be wages (see instructions): $ ____ X 7% (.07)	
8	Total social security taxes (add lines 6, 7a, and 7b)	10,141 17
9	Adjustment of social security taxes (see instructions) ▶	
10	Adjusted total of social security taxes	10,141 17
11	Total taxes (add lines 5 and 10) ▶	27,555 27
12	Advance earned income credit (EIC) payments, if any ▶	
13	Net taxes (subtract line 12 from line 11). This must equal line IV (plus line IV of Schedule A (Form 941)) if you have treated backup withholding as a separate liability.)	27,555 27
14	Total deposits for quarter, including any overpayment applied from a prior quarter, from your records ▶	27,333 96
15	Undeposited taxes due (subtract line 14 from line 13). Enter here and pay to internal Revenue Service ▶	221 31
16	If line 14 is more than line 13, enter overpayment here ▶ $ ____ and check if to be: ☐ Applied to next return, or ☐ Refunded.	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▶ Jack R. Brandeis Title ▶ Pres. Date ▶ 4/4/84

Form 941 (Rev. 1-84)

Department of the Treasury
Internal Revenue Service
ANDOVER, MA 05501

(2)

If you have any questions, refer to this information:
Date of This Notice: JULY 16, 1984
Taxpayer Identifying Number: [redacted]
Document Locator Number: [redacted]
Form: 941 Tax Period: MAR. 31, 1984

Call: 274-1040 LOCAL PROVIDENCE
or 1-800-424-1040 OTHER RH. ISLAND

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
ANDOVER, MA 05501

If you write, be sure to attach the bottom part of this notice.

151
[redacted]

REQUEST FOR PAYMENT

FEDERAL EMPLOYMENT TAX

OUR RECORDS SHOW YOU OWE $332.94 ON YOUR RETURN FOR THE TAX AND TAX PERIOD SHOWN ABOVE. IF YOU BELIEVE OUR RECORDS ARE NOT CORRECT, PLEASE SEE THE INFORMATION ABOUT THE AMOUNT YOU OWE ON THE BACK OF THIS NOTICE. MAKE YOUR CHECK OR MONEY ORDER PAYABLE TO THE INTERNAL REVENUE SERVICE. PLEASE WRITE YOUR TAXPAYER IDENTIFYING NUMBER ON YOUR PAYMENT AND MAIL IT WITH THE BOTTOM PART OF THIS NOTICE. AN ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. YOU SHOULD ALLOW ENOUGH MAILING TIME TO BE SURE WE RECEIVE YOUR PAYMENT BY JULY 26, 1984.

THANK YOU FOR YOUR COOPERATION.

TAX STATEMENT

TAX ON RETURN	27,555.27
TOTAL CREDITS	27,555.27-
OVERPAID TAX	.00
*PENALTY	332.94
*INTEREST	.00
AMOUNT YOU OWE	332.94

See codes 11 on the back of this notice that provide further explanations and instructions.

If you have any questions, you may call or write -- see the information in the upper right corner of this notice. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

Keep this part for your records

Form 4426 (Rev. 12-83)

(.3)

July 17, 1984

Internal Revenue Service Center
Andover, Mass. 05501

Re: ID #05-0097110
Document Locator Number [redacted]
Form: 941 Tax Period Mar. 31, 1984
Penalty Amount $332.94

Gentlemen:

In regards to the above my quarterly tax form #941 was mailed in on time along with the check for $221.31 on our check #1012 dated 4/5/84. I could not understand why I did not come out even on lines #IV and 13 (a difference of $221.31). I called our accountant and he said it was the FICA as of Jan 1 1984 - employer was .07% and employee was .067%. I was not aware of this change.

I am enclosing a copy of my #941 mailed in to you on 4/4/84. If you check our records we are very prompt in paying our taxes. What can I say except that I am sorry.

Would you please explain to me the penalty of $332.94 because there is something not quite right. You see all my taxes were deposited on time - I have my receipts. The only discrepancy was the balance of 221.31 which a check for same amount was mailed directly to the Internal Revenue Service along with Form #941.

I do not understand what this penalty is for--please explain to me why theare charged the penalty in the first place.

Very truly yours,

[redacted].

Lea Bianchi

Lea Bianchi
Bkpr.

COPY

Department of the Treasury
Internal Revenue Service

ANDOVER, MA 05501

In reply refer to: [redacted]
AUG. 30, 1984

01311

[redacted]

Employer Identification Number: [redacted]

Dear Sir:

We received your inquiry dated July 17, 1984 about the bill we sent you. The penalty was charged because you did not meet the Federal tax deposit requirements for tax reportable on Form 941 for the period ending Mar. 31, 1984.

We are glad to tell you that the additional information allowed us to cancel the penalty.

Since no tax liability schedule was shown, or the breakdown given did not equal the total tax, we divided the total liability into equal amounts. The penalty was charged on the tax liability not satisfied by deposits made on time.

If you have questions about this letter, please write to us at the address shown on this letter. If you write, please attach this letter to help identify your account. Keep the copy for your records. Also, please include your telephone number and the most convenient time for us to call, so we can contact you if we need additional information.

If you prefer, you may call the IRS telephone number listed in your local directory. An IRS employee there will be able to help you, but the office at the address shown on this letter is most familiar with your case.

Thank you for your cooperation.

Sincerely yours,

Lucille A. Berry

Chief, Taxpayer Assistance Section

Enclosure :
Copy of this letter

Department of the Treasury
Internal Revenue Service
ANDOVER, MA 05501

138
[redacted]

If you have any questions, refer to this information:
Date of This Notice: SEP. 10, 1984
Taxpayer Identifying Number: [redacted]
Document Locator Number: [redacted]
Form 941 Tax Period: JUNE 30, 1984

Call: 274-1040 LOCAL PROVIDENCE
or 1-800-424-1040 OTHER RH. ISLAND

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
ANDOVER, MA 05501

If you write, attach this notice and include your telephone number and the best time for us to call if we need more information.

OVERPAID TAX APPLIED TO OTHER FEDERAL TAXES OWED
THIS IS NOT A BILL

FEDERAL EMPLOYMENT TAX

Our records show you owed other Federal taxes, so $ 152.54 of the overpaid tax on your tax return for the above tax period has been applied to the unpaid amount. The figures below show the amount of any refund due you, or any taxes you still owe.

You may have made a payment on the taxes you owed and it was not credited to your account when your overpaid tax was applied. Or you may still have a refund due for the above tax period. If so, a check will be sent to you for the total amount due you if it is $1 or more. However, if the amount due you is less than $1, it will be sent to you only if you ask for it.

If you have any questions, you may call or write us — see the information in the upper right corner. To make sure that IRS employees give courteous responses and correct information to taxpayers, a second employee sometimes listens in on telephone calls.

Thank you for your cooperation.

TAX STATEMENT

Your overpaid tax on return	$	152.54
Amount of overpaid tax applied	$ 152.54	
Amount of interest applied	.00	
Total amount applied (see below)	$	152.54
Amount to be refunded to you (any interest due you will be added)	$	.00

HOW YOUR OVERPAID TAXES WERE APPLIED

FORM(S)	TAX PERIOD	AMOUNT APPLIED
941	MAR. 31, 1984	$152.54

Form 4356A (Rev. 3-84)

Department of the Treasury
Internal Revenue Service
ANDOVER, MA 05501

210
[redacted]

If you have any questions, refer to this information:
Date of This Notice: SEP. 17, 1984
Taxpayer Identifying Number: [redacted]
Document Locator Number: [redacted]
Form 941 Tax Period: MAR. 31, 1984

Call: 274-1040 LOCAL PROVIDENCE
or 1-800-424-1040 OTHER RH. ISLAND

Write: Chief, Taxpayer Assistance Section
Internal Revenue Service Center
ANDOVER, MA 05501

If you write, be sure to attach this part of notice.
The copy is for your records.

08154-641-15082-4

STATEMENT OF ADJUSTMENT TO YOUR ACCOUNT

BALANCE DUE ON ACCOUNT BEFORE ADJUSTMENT		$180.40
ADJUSTMENT COMPUTATION		
PENALTY- DECREASE SEE EXPLANATION 03	$332.94	
INTEREST ALLOWED	1.80	
NET ADJUSTMENT CREDIT		334.74
OVERPAYMENT		$154.34

INTEREST ALLOWED MUST BE REPORTED AS
INCOME ON YOUR NEXT INCOME TAX RETURN.

24-25 ← The numbers at the left identify the codes on the back of this notice that provide further explanations and instructions.